

## Annual Audit and Inspection Letter

### East Sussex County Council

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## Executive summary

### The purpose of this letter

This is our audit and inspection 'Annual Letter' for Members, presented by the council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspection of the council.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information. Appendix 2 sets out the objectives of audit and inspection and Appendix 3 provides information about the fees charged. There are two further appendices, Appendix 4 contains our audit opinion and certificate following our audit of the council's 2004/05 best value performance plan and Appendix 5 highlights the key issues arising from performance audit work completed over the past 12 months.

## Key messages

### Council performance

The council has maintained its focus on improving core services and sustaining or improving performance in its priority areas. Most notably, the Commission for Social Care Inspection (CSCI) considers that the rapid improvement in Adult Social Care Services reported in 2003 is being sustained and that performance in Children's Social Care services remains high. New initiatives introduced over the past 12 months are assisting in improving these services. However, the difficult financial outlook for the local NHS economy and the increase in demand for community based services means that some significant operational and financial risks will need to continue to be dealt with by the council and its NHS partners.

Educational attainment is getting better. Good performance is being reported at key stage 1, with the council's targets being achieved in 2004. Improvement is also being reported at key stages 2 and 3. At key stage 2, East Sussex is one of the top 20 most improved local education authorities in England since 2001. Whilst performance at key stage 3 is improving, it remains below the target levels set by the government department.

The council is reporting some good performance in reducing crime and has already achieved its LPSA target for increased reporting of domestic violence. Like most areas of the country, and following changes in the way data is collected, there has been an increase in reported violent crime in public places in East Sussex. The council and the local Crime and Disorder Reduction Partnerships, are working to address this.

The condition of the county's roads is improving and the council is tackling the sustainable transport agenda. The council's transport services are judged to be 'good' with 'promising' prospects for improvement.

Government inspectors have judged the council's library plans and progress towards national library standards to be 'good' overall.

The council works well with the local strategic partnership and progress is being made against the community strategy agreed in 2003.

The council has developed closer links with the local business community through the East Sussex Economic Partnership, which involves other local authorities and the South East of England Development Agency (SEEDA). Investment for the area, such as the regeneration of Hastings, Bexhill and Newhaven has been secured.

Overall public satisfaction with the services provided by the council has improved to amongst the best in the country at 75 per cent in 2004, at a time when the national trend is for satisfaction levels to reduce.

The Joint Waste Management contract is performing in line with the expectations of the council and working arrangements have quickly been established with the private contractor. The future performance of the contract does remain a significant financial and operational risk in the light of the government's announcements about the improvements expected in the level of recycling and reduction in waste taken to landfill.

## The accounts

The council's arrangements for preparing and publishing the annual accounts are working well. The council's performance in 2003/04 is well ahead of the government's expectations in this area. We gave an unqualified opinion on the 2003/04 accounts on 19 November 2004.

## Financial position

The council successfully achieved a particularly demanding budget in 2003/04 and has strengthened its overall financial position further. The financial outlook continues to look as challenging as the Council anticipates. Nevertheless its robust financial planning processes mean it is well placed to tackle this.

## Corporate governance

The successful implementation of the Core Back Office Systems Solution (CBOSS) project was a significant achievement for the council. The original plan was highly demanding and the project was delivered largely in line with the implementation timetable and with the minimum of disruption to the council's day to day operations.

The quality of internal audit work remains high and a particularly demanding workload was delivered over the past 12 months. The section has provided advice and support to some key corporate projects, providing assurance to Members that action is being taken to mitigate the risks identified by the work of internal auditors.

## Action needed by the Council

Whilst the annual audit and inspection letter contains no detailed recommendations, we have discussed with officers the need to:

- continue to work closely with partners, particularly in the NHS, to sustain and drive forward improvement in Adult and Children's Social Services;
- work with the local Crime and Disorder Reduction Partnerships to take forward and extend the initiatives designed to reduce violent crime in public places;
- secure the improvements expected in the Transport service following the best value review of the service and the report by Audit Commission Inspectors;
- continue to take forward the e-government approach, building on the good work completed to date;
- continue to assess the financial and operational risks involved in the waste management service;
- remain focussed on achieving the annual budget and the medium term financial strategy in the light of the key risks identified by the financial planning process, particularly where partnerships are involved in delivering services; and
- continue to secure further improvement in delivering the annual capital programme by building on the positive improvements to date.

## Council performance

### CPA scorecard

The CPA scorecard is due to be published on the Audit Commission's website on 16 December 2004.

Element	Assessment
Overall	*
<b>Current performance</b>	<b>out of 4</b>
education	*
use of resources	4
social care (children)	3
social care (adults)	2
environment	*
libraries & leisure	2
Capacity to improve (not reassessed in 2004)	3

(Note: 1=lowest, 4=highest)

\* These judgements will be published on 16 December 2004.

## CPA improvement report

In this section of the Letter we comment on the progress the council has made in its priorities for improvement over the past 12 months. Our commentary is structured around the council's seven priority areas.

### Improving services to older people.

The Commission for Social Care Inspection (CSCI) in 2004 judged the council's social services to be serving 'some' people well with 'promising' prospects for improvement. This is the same judgement secured in 2003. The significant improvements made by the council last year have been sustained.

Further improvements made this year include; a reduction in the use of residential care and an increase in the number of individuals helped to live at home; improved provision of community equipment and a greater choice for customers through the increased use of direct payments. Investment has also been made to secure improvements for the future including a single assessment process (reducing the burden on customers) and new commissioning managers to develop more effective services.

Nevertheless, there are some areas of concern, most notably a high number of emergency admissions to hospital and a high number of delayed transfers of care. The council and its NHS partners have invested considerable resources to help address this problem. However, a workable agreement needs to be reached on how to make the best use of reimbursement monies and discussions remain ongoing on how to achieve this.

Progress against the LPSA targets that relate to services for older people is mixed:

- the council is on course to meet targets for increasing the number of households receiving contact hours, home visits and intensive home care; but
- is behind its target for increasing the number of people aged 65+ receiving community based services.

### Minimising council tax rises as far as possible, by focussing on core services

The council's overall aim is to 'deliver high quality core services as cost effectively as possible'. Its priorities for improvement are determined in consultation with local people and partners, and resources are directed to their achievement. For example, working with the East Sussex Strategic Partnership (ESSP), the council has LPSA targets for the rural economy and to enhance the educational attainment of young people in the Hastings and St Leonard's area. These are priorities of local people.

Performance management systems are effective, and a performance culture is embedding across the organisation. The council works well with the ESSP and partners are overseeing delivery in some key priority areas such as private rented housing.

As at the end March 2004, the council reported that 67 per cent of its Best Value Performance Indicators were improving and 33 per cent had not improved. At the end of September 2004, overall progress against the council's LPSA targets shows that of the 27 detailed targets where data is available, 15 are above or on target, three are only slightly behind target and nine are more than five per cent behind target. Members have considered reports from officers on the areas where additional resources may be required to achieve the targets agreed and are monitoring closely those targets which may not be achieved within the resources available.

### **Raise the economic performance of East Sussex**

The council, with its partners, successfully achieved the aim of establishing the Hastings University Centre which opened in September 2003. The council has worked closely with SEEDA to secure £1.65 million (in 2003/04) for investment in the area, particularly for Newhaven. The priority areas for investment align closely to the council's strategic objectives, enhancing its capacity to deliver these in the future.

The East Sussex Economic Partnership, which is business-led but involves local authorities in East Sussex is also having an impact. A ten year investment programme for the Hastings and Bexhill area is underway and some £38 million has been secured for infrastructure and other site developments, with the initial work due to be completed in 2005.

The council is also making good progress with its LPSA target for the rural economy. As at the end of September 2004, targets involving the use of strategic footpaths and the accreditation of Small Enterprises in East Sussex under the 'quality edge' programme were being met and progress is being made in improving the e-commerce capabilities of these enterprises.

### **Further reduce crime and the fear of crime**

Community safety remains a priority area for the people of East Sussex and the council has LPSA targets to reduce violent crime in public places. Performance in 2004 was variable, with some improvement evident in reducing motor vehicle crime and sex offences (where performance remains amongst the best in the country).

The reporting of domestic violence crime has been successfully tackled and the associated LPSA target achieved two years earlier than planned. Work is in progress to meet the council's target of reducing the number of repeat incidents.

In common with most parts of the country, and following changes in the way data is collected, there has been an increase in the number of violent crimes reported in East Sussex. Associated data from the Ambulance service does, however, show a reduction in the number of violent crime related incidents that the service has had to deal with. Action plans are being developed within each Crime and Disorder Reduction Partnership to reduce the level of violent crime.

### **Provide safer and better maintained roads and repair street lights**

The council has improved the condition of its roads and is tackling the wider agenda of sustainable transport. In 2004, we judged its transport services as 'good' with 'promising' prospects for improvement. The condition of non-principal roads has improved over the past 12 months; the use of buses and public satisfaction with the bus service has increased; and the number of people killed or seriously injured on roads in East Sussex is reducing and is ahead of the council's LPSA target. Many of the council's transport related performance indicators place the council's performance amongst the best in the country, including the percentage of road accidents involving car occupants and the condition of footways.

**Support teachers in continuing to raise standards in schools**

The council is continuing to put significant resources into enhancing educational attainment and improving attendance at schools across the county. Investment has been made to help improve the attainment of young people in the Hastings and St Leonard’s area (a local LPSA target) such as enhancing communication across the five secondary schools in the area and targeting 40 pupils for additional mentoring and support.

Overall, the results reported in 2004 for educational attainment are showing improvement in the council’s priority areas although performance against the stretch targets agreed with the Department for Education and Skills (DfES) remains mixed, as shown below.

EDUCATIONAL ATTAINMENT PRIORITY AREAS				
	2003/04	2004/05	2004/05	*
	Actual %	Target %	Estimate %	
<b>Key Stage 1 (level 2 or above)</b>				
Reading	83.4	84	83	↔
Writing	80.6	81	81	↑
Maths	89.3	90	90	↑
<b>Key Stage 2 (level 4 or above)</b>				
Maths	72.2	85	74	↑
English	74.3	86	78	↑
<b>Key Stage 3 (level 5 or above)</b>				
English	70	75	73 (**)	↑
Maths	72	77	76	↑
Science	70	72	68	↓
<b>Key Stage 4 (five or more GCSEs)</b>				
	91.2	93	92.1	↑

\* Performance improvement between 2003 and 2004.

\*\* Provisional results published November 2004.

Some good performance is being reported at key stage 1, with the council’s targets largely being achieved. Educational attainment is improving in most other priority areas. At key stage 2, East Sussex is one of the top 20 most improved local education authorities in England since 2001.

At key stage 3 (Science) performance has deteriorated in line with the national trend. The targets set at key stage 1 and 2 remain challenging.

The council has an LPSA target for the attainment of pupils at key stage 3 for the percentage of pupils achieving level 5 or more in English, Maths, Science and ICT. At the end of September 2004, officers are reporting that interim targets are not being met, but there are encouraging signs of improvement in most areas.

The achievement of the targets set for Science remains a concern and reflects the national trend in this area.

The council remains focussed on improving attendance at schools. The work of the Attendance Support Team at 15 secondary schools in the county is having an impact on the level of absence reported. However, the council is not expecting a step change in performance until 2005 at the earliest.

As at the end of March 2004, the council is reporting the following performance.

SCHOOL ATTENDANCE PERFORMANCE				
	2002/03	2003/04	2003/04	*
	Actual	Target	Actual	
<b>Secondary Schools</b>				
Per cent half days missed due to absence				
	9.4	8.0	8.4	↑
<b>Primary Schools</b>				
Per cent half days missed due to absence				
	6.1	5.7	5.8	↑
<b>Number of exclusions per 1000 pupils</b>				
	1.3	0.9	1.4	↓

\* Performance improvement between 2003 and 2004.

As at the end of August 2004, four of the council’s schools were in special measures and a further two schools were considered by the DfES to have serious weaknesses. At about three per cent of all schools, this is considerably above the council’s target of 0.6 per cent of schools for the 2004/05 year.

Action is being taken and officers anticipate that the situation should improve over the next six months, but that the council’s target may not be met until October 2005.

The council aims to provide all permanently excluded pupils with more than 20 hours of alternative tuition per week. In 2003/04, the council achieved this performance in only 31 per cent of cases, which is in the worst quartile of all local education authorities.

### **Promote active citizenship**

Overall satisfaction with the council has increased to 75 per cent, a commendable improvement of eight percentage points over the previous satisfaction survey undertaken in 2001. Performance remains amongst the best in the country for all local authorities.

The council is making good progress towards the government's target of having all interactions with the public capable of being delivered electronically by 2005. In 2004, the council was ahead of its target and reported that 73 per cent of interactions were capable of being carried out electronically.

The council has also increased access to information about the council and its services. A network of internet kiosks has been established and the council's own website has been enhanced, securing a crystal mark for its ease of use. Key council meetings are also broadcast on the council's website using 'web-cast' technology.

The council is continuing to develop the approach to quality of life indicators and has established a basket of 12 indicators which use a baseline position of May 2002 to track progress. The ESSP is working to develop a further 70 quality of life indicators and is aiming to publish these in the community strategy. Performance was reported in the first annual update published on the ESSP website in September 2004.

### **Other services and priority areas**

#### *Children's services*

The council recognises the important role it has to play in helping children and young people to thrive and succeed and has sustained its good performance in this area. Children's social care services have been judged by CSCI to be serving 'most' children well and have 'promising' prospects of improvement.

The prospects for improvement judgement is a slight deterioration on the 'excellent' judgement secured in 2003. However, performance remains high and has assisted in maintaining the overall 'two star' judgement for Social Services given by CSCI.

At the end of March 2004, most of the indicators reported by the council showed performance to be amongst the best in the country, although the percentage of young people leaving care aged 16 or over with at least one GCSE (grade A\* to G or equivalent) remains in the lowest quartile at 41 per cent and behind the council's target of 50 per cent.

Progress against the LPSA target to increase the numbers of looked after children aged 0-11 years in permanent family placements is good and the council is on track to achieve the stretch target agreed with the government department.

The council is working with its partners to establish a 'shadow' children's trust over the next 12 months and work has already commenced to adjust the council's internal structures and reporting mechanisms to assist in supporting this important development.

#### *Libraries*

The Government has assessed the council's 2004 Public Library Position Statement and its Public Library Standards report as being 'good' overall. Inspectors concluded that the library service was making 'excellent' progress towards meeting the national public library standards and that the additional resources invested in the service had improved the service overall.

In July 2004, the Museum, Libraries and Archives Council (MLA) completed a peer review of library services in East Sussex, reporting that the council was:

- fully committed to developing and improving the service and integrating it into the development of young people;
- meeting more library standards (18 out of the 27 specified); and
- surpassing its targets for library visits.

Whilst users are satisfied that they find the book they are looking for (at 77 per cent this is top quartile performance), overall satisfaction with the service is low at 59 per cent. The council is however, well placed to improve the situation with the opening of two new libraries in the county in 2005 and with additional resources being invested in the service to increase library opening hours.

#### *Organisational development*

The council has made improvements to its organisational development over the past 12 months. The council has secured the corporate 'Investors in People' standard and has introduced a competency framework for middle managers, the outcome of which is being evaluated with the aim of extending the framework to all staff in April 2005. A pay and workforce strategy is being developed for implementation in March 2005.

The average number of days lost to sickness in 2003/04 (8.93 days) has reduced compared with 2002/03 (9.23 days), but remains above the council's own target. Staff satisfaction has improved, particularly with the learning and development opportunities offered. All of these factors, coupled with the introduction of a new fully integrated e-business system and flexible working in certain areas, should assist in building the council's capacity further.

The contribution of the ESSP increases the available capacity for the achievement of common objectives and priorities. The council relies on the partnership to deliver some key targets agreed in its LPSA. For example, the delivery of the improvements in the number of drug users in treatment programmes and improvements in private rented housing are being secured in partnership with the local housing authorities in Hastings, Eastbourne and Rother.

#### *Procurement*

The council has kept its procurement policies and processes under review and published an updated strategy for the period 2004 to 2006. The strategy has been strongly influenced by the national strategy published for local government and includes details of how the council is responding to the Gershon efficiency review.

An improvement plan has also been prepared and this highlights the actions the council will take, and the targets it expects to achieve, over the life of the strategy. The council is also engaged in a number of important, e-procurement projects which complement the strategy, such as electronic ordering and invoicing, which are designed to improve efficiency further and secure the benefits expected from the significant investment made in its back office systems.

### Other performance work

#### **Joint waste management contract**

The Council, working in partnership with Brighton and Hove City Council, entered into a contract with a private sector company on 1 April 2003 for the provision of integrated waste management services. Significant funding for the project (PFI credits amounting to £50 million) was secured through the government's private finance initiative.

The contract amounts to over £1 billion over its 25 year life and represents a significant financial and operational risk at both councils, mainly because of the significant resources involved, but also because of the new, 'stretch' targets being set by the government to increase the levels of recycling and disposal of waste away from landfill sites.

The Joint Waste Committee (which involves leading Members from both councils) received reports from officers on 1 October 2004 on the financial and operational performance of the contract in its first year of operation. Overall, the contract has been operating in line with the council's plans with payments amounting to about £12.5 million being made in 2003/04.

Our ongoing work with the project board confirms that working arrangements have quickly been established with the private contractor, with monthly payments being made on the basis of forecast information. Officers feel that the arrangements are working well and that the contractor has responded positively to their requests for accurate and timely performance information.

Officers are continuing to undertake regular financial and operational risk assessments on the future operation of the waste management service and have highlighted the need to prepare for:

- potential changes to the PFI grant scheme, which may result in a restructuring of grant payments from the government;
- increases proposed in the amount of landfill tax paid by local authorities and the impact on grant paid under the government's formula spending share; and
- the introduction of the government's Landfill Allowance Trading Scheme, which may have a significant financial impact at both councils.

In June 2004, the local planning inspector published his report into the waste local plan. The councils are due to publish their response to the recommendations made early in the new year before agreeing a final version of the waste local plan. Officers are however confident, that none of the recommendations made will adversely affect the future operation of the contract.

### Performance information

The Audit Commission requires auditors to review the accuracy of the Best Value Performance Indicators published in the BVPP. The outcome of our work is included in a national report, with certain indicators being specified by the Commission for inclusion in the Comprehensive Performance Assessment.

Based on our assessment of risk, we tested over 40 indicators. We concluded that all of the indicators reviewed fully complied with the relevant guidance (in 2002/03 we placed reservations on five indicators).

The council's achievement in 2003/04 is commendable and follows a sustained focus from officers on developing and operating effective systems for preparing and publishing performance information. The approach is underpinning the council's performance management arrangements with accurate and timely performance information to inform the council's decision making processes.

### Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- DfES; and
- Local Government Office contact.

We share information and seek to provide 'joined up' regulation to the council. During the last year the council has received the following assessments from other inspectorates.

#### COMMISSION FOR SOCIAL CARE INSPECTORATE

Social Care	Judgement	Score
Children	Most/Promising	3
Adults	Some/Promising	2
Overall	**	2.5

#### DEPARTMENT FOR CULTURE MEDIA AND SPORT

Libraries assessment	Year	Score
Framework for the future (statement score)	2004	3
Public library standards	2004	3
Overall DCMS score (*)	2004	3

\* The CPA score for the libraries service shown at page 4 is '2' overall. The score includes the DCMS score above, performance against best value indicators and judgements made by Audit Commission inspectors in 2001.

#### DEPARTMENT FOR EDUCATION AND SKILLS

Education assessment	Year	Score
Overall score	2004	*

\* The CPA score for Education will be published on 16 December 2004.

## Accounts and governance

*The council's arrangements for preparing and publishing the annual accounts are continuing to work well. We gave an unqualified opinion on the 2003/04 accounts on 19 November 2004. The corporate governance framework is continuing to develop and is operating effectively.*

### Audit of 2003/04 accounts

#### Matters arising from the final accounts audit

The published accounts are an essential means by which the council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The 2003/04 financial statements were approved by the Governance Committee on 12 July 2004 and we completed our work early in September. We gave an unqualified opinion on the accounts on 19 November 2004.

The council has built on already strong arrangements to prepare and publish its annual financial statements in line with the earlier deadlines specified by the government. The government's guidelines do not expect local authorities to achieve such performance until 2005/06.

Officers recognise that improvement can continue to be made, particularly in ensuring that the information provided to the pension fund actuary is thoroughly reviewed for accuracy to ensure that the very complex disclosures required in the accounts of the council and its admitted bodies by the accounting standard FRS17 are complete and accurate at the outset.

In response to our audit work, officers sought a second actuarial report and some amendments were made to the liabilities disclosed. However, none of the amendments we recommended affected the overall financial position of the council. The Governance Committee considered a revised set of accounts on 19 October 2004.

#### Report to those with responsibility for governance in the council

We are required by professional standards to report to those charged with governance (in this case the Governance Committee) certain matters before we give an opinion on the financial statements. We wrote to the chair of the committee on 19 November 2004 confirming that our detailed audit work had not identified any significant issues that needed to be brought to the attention of members and that officers had made the necessary adjustments to the accounts in the light of our detailed audit work.

#### General fund spending 2003/04 and balances

The 2003/04 net revenue budget amounted to £458.8 million and included a contribution of £0.8 million to the county fund balance. The council performed well to achieve its financial plans and the overall financial position has been strengthened, with additional contributions being made to some new strategic and other specific reserves. In particular, new reserves have been established to deal with the financial risks identified by officers as they relate to the local health economy and planned contributions have been made to the council's capital investment and PFI reserves.

As at 31 March 2004, the county fund balance amounts to £6.4 million. At 2.26 per cent of net revenue expenditure (excluding schools) this meets the council's target. The council's aim is to maintain the county fund balance at over 2 per cent (of net revenue expenditure) and by the end of March 2005, this should amount to £8 million. The Chief Financial Officer has informed members that the level of balance currently being reported is prudent in the light of the other strategic reserves available. As at the end of March 2004, the council's balances and reserves have increased from £37 million to over £56 million, as shown in the following table.

<b>BALANCES AND RESERVES</b>		
	<b>31 March 2003 £000</b>	<b>31 March 2004 £000</b>
<b>Specific reserves</b>		
Insurance	5,010	4,920
Departmental Budgets	10,190	5,712
Schools PFI	1,115	1,669
Strategic Change	820	1,520
Corporate Waste	2,552	9,531
Capital Programme	7,785	16,622
E-Government	1,078	2,244
CBOSS	728	1,532
Community Care	-	1,400
Bed-Blocking	-	2,100
Other	2,115	2,817
<b>Total Specific Reserves</b>	<b>31,393</b>	<b>50,067</b>
County fund	5,615	6,414
<b>Total Reserves</b>	<b>37,008</b>	<b>56,481</b>

*Source: 2003/04 financial statements – excludes pension reserve and schools reserve.*

### **Pension fund deficit**

A new accounting standard, known as FRS17, requires local authorities to disclose their future long term pension liabilities (net of investment assets) at the balance sheet date in line with actuarial assumptions. As at 31 March 2004, the council disclosed liabilities of £138.8 million, as calculated by its actuaries, compared to £184 million for 2002/03.

The disclosures required by FRS17 have not affected the council's net revenue balances or the level of council tax required to date. In respect of the Local Government Pension Scheme, changes in employer contribution rates are made following the normal triennial actuarial valuation. The valuation may have an impact on the council's revenue accounts if a change is recommended by the actuary. For the three year period under review, the relative performance of East Sussex Pension Fund was at the tenth percentile, against a background of significant falls in investment markets since the last full actuarial valuation in 2001.

The latest triennial valuation is due to be completed by the actuary for the period up to 31 March 2004 and the results should be available for the council to consider in determining its revenue budget for the 2005/06 financial year. Officers anticipate that whilst increases in employers contributions may be made, these can be contained within the medium term financial plans agreed by members.

The council is continuing to monitor its future liabilities closely and in full consultation with the other bodies admitted to the Pension Fund.

### **General fund performance 2004/05**

The 2004/05 budget amounts to £463.3 million and includes a savings target of £3.3 million. The level of council tax increase was 5.2 per cent in line with the council's medium-term financial strategy.

As at the end of August 2004, while officers are projecting that the council's budgets may be slightly overspent by about £0.5 million, the Treasurer remains confident that a net underspend will be achieved for the whole council by the year end. Whilst some additional costs are being anticipated within the social services department amounting to at least £1.2 million, these are largely offset by underspends in other corporate budgets. Management action is already having an impact in bringing the social services budget back on track and members are continuing to receive reports from officers accordingly.

### **Capital programme**

The council's revised capital expenditure plans in 2003/04 amounted to £56.8 million which included slippage from previous years of £8.3 million as well as new schemes approved in the year amounting to £8.4 million. Actual expenditure in the year was £43.5 million and this represented 76.5 per cent of the revised programme.

The level of slippage reported in 2003/04 (£13.3 million) is significantly above that reported in 2002/03 (£8.3 million). As a consequence, the Capital and Property Strategy Group has undertaken a thorough 'mid term review' of the programme to ensure that it meets the council's service and financial planning criteria and that the 2004/05 programme is more realistically based. The programme was reported to Cabinet in November 2004 in the light of the monitoring reports prepared by officers.

The work of the capital and property strategy group has also underpinned the council's response to the new prudential framework of capital accounting introduced by the government with effect from 1 April 2004. For instance, the capital programme is now prepared on the basis of agreed service and financial criteria which support the council's corporate priorities. In addition, a number of prudential indicators have been developed which build on the council's existing approach of ensuring that the capital programme is fully financed and affordable within the context of the overarching medium term financial strategy. No unsupported borrowing is anticipated over the life of the capital programme published by the council.

Based on its agreed investment criteria, the council has published its capital investment and financing plans to 31 March 2008. The council is planning to spend about £137 million as shown in the table below.

CAPITAL FINANCING/SPENDING				
	2004/ 05	2005/ 06	2006/ 07	2007/ 08
	£000	£000	£000	£000
<b>Financing</b>				
Revenue	2,734	2,384	2,384	2,384
Borrowing	24,050	16,324	14,440	14,440
Grants	15,774	11,846	1,580	6,000
Capital receipts	6,000	1,500	1,500	1,000
Reserves	6,127	3,990	1,350	1,350
<b>Total</b>	<b>54,685</b>	<b>36,044</b>	<b>21,254</b>	<b>25,174</b>
<b>Planned Spending</b>	<b>54,685</b>	<b>36,044</b>	<b>21,254</b>	<b>25,174</b>

## Systems of internal financial control

*The overall system of internal financial control is continuing to work effectively. Some major corporate projects have progressed over the last 12 months but this has not adversely affected the overall control environment.*

### Core financial processes

There are no matters arising from our review of the council's core financial processes that need to be brought to the attention of members. We made only a small number of minor recommendations to strengthen the council's framework of internal controls (for instance to ensure that the aged debtor analysis was brought up to date and that journal authorisation procedures were more closely followed).

Officers have pointed out that the recommendations made are being dealt with in implementing the council's new financial systems as part of CBOSS and are not expected to recur.

### Internal Audit

The Internal Audit section is continuing to provide an effective service across the organisation. Over the past 12 months, the section made a significant contribution to the successful implementation of two major initiatives at East Sussex (the joint waste management PFI contract and the CBOSS project).

The section committed substantial resources to support these initiatives and provided specialist advice to the project teams throughout the year. The work is valued by the council's senior management and also by members, who received reports from the Head of Audit on the key risks identified by his work throughout the year.

Against this background, the achievement of over 90 per cent of the planned programme of work is commendable and we were able to rely on the work completed under our joint working protocols. The section also undertook some important, unplanned work which was completed as a high priority at the request of service departments.

Overall, the internal audit section successfully delivered a particularly demanding workload in 2003/04.

### **Council Back Office Systems Solution (CBOSS) project**

The council is investing significant resources in replacing almost all of its 'back-office' systems with integrated software known as SAP/R3 through a major corporate project known as CBOSS. The project is a key part of the council's e-government strategy and aims to provide the efficiency gains necessary to meet its key strategic aim of becoming a 'modern e-enabled local authority'.

In addition to the software implementation, the project took the opportunity to streamline a number of the council's business processes to secure the maximum benefit from the investment made.

We worked closely with Internal Auditors to track the progress of the project, attending meetings with the project team and providing feedback on our view of the project's progress and areas where we felt that further work was required to mitigate the more significant risks involved. We also reviewed the project management methodologies established and found that, in overall terms, they compared well to best practice.

The council's achievement in implementing Phase 1 of the new system (financial systems, capital projects and procurement) in September 2004 is significant and was achieved with the minimum of disruption to the council's day to day operations. Over 1,000 staff were fully trained in the lead up to implementation and a programme, based on an assessment of need, is continuing to be implemented for other members of staff.

Members are continuing to receive reports from the Programme Director on the implementation of the project and a post-implementation review is due to be completed in 2005.

We shall continue to monitor progress of the project through Phase 2 (Human Resources and Payroll) and later phases over the next 12 months.

### **Standards of financial conduct and the prevention and detection of fraud and corruption**

*The council's arrangements to prevent and detect fraud and corruption are continuing to operate effectively.*

The council is continuing to operate effective policies for the prevention and detection of fraud and corruption and awareness of policy and procedures is high. There are no issues that need to be brought to the attention of members.

### **National Fraud Initiative**

The Council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Nationally, total savings from the 2002/03 exercise now exceed £83 million. The council was able to recover about £4,600 relating to overpaid pensions following its review of the data matches provided by the Audit Commission.

The Commission is repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from Authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by Authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers.

The council has agreed to participate in the initiative to match payments to privately run care homes. These pilot areas, if they prove effective, will be fully incorporated into future NFI exercises.

## Legality of transactions

We have not identified any weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions. The Standards Committee, is continuing to keep the council's various codes of conduct under review and the Governance Committee is continuing to test the corporate governance framework against emerging best practice.

Over the last 12 months, the Governance Committee has received a report and agreed recommendations on adjustments to the overall framework to ensure that best practice continues to be followed (as highlighted by the CIPFA/Solace framework). The committee has also been involved in developing and approving the council's annual statements of internal control (as published in the 2003/04 accounts).

## Other work

### Best value performance plan audit

*The 2004/05 Best Value Performance Plan underpins the overall approach to performance management and fully complies with the relevant statutory guidance. Arrangements for producing performance information have improved from an already strong baseline position and all statutory indicators complied with the government's guidance in 2004/05.*

We are required to issue our statutory audit opinion and certificate on the BVPP under section 7 of the Local Government Act 1999 by 31 December. Our opinion and certificate on the 2004 BVPP was given on 15 December 2004 and is shown at Appendix 4.

A summary of the BVPP was provided to the local population at the end of March 2004 and the council met the statutory deadline of 30 June 2004 for publishing the detailed plan.

Our work shows that the plan complies with the legislative and statutory requirements.

## Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 some smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the Council's control environment.

Overall, the Council's arrangements for managing and quality assuring grant claims submitted for audit are continuing to operate effectively.

## Looking forwards

### Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the council. We will continue with this approach when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

## Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

## CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- rationalization of service blocks;
- 'Achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes;
- move away from rigid numerical model, to one based on rules;
- Corporate Assessments to be undertaken on rolling programme, integrated with Joint Area Reviews of children and young people;
- stronger focus on service delivery for users and customers; and
- more robust and explicit view of vfm and cost-effectiveness.

## Closing remarks

This letter has been discussed and agreed with the chief executive and the council's chief officers. A copy of the letter will be presented at Cabinet on 15 December 2005, when it will be circulated to all members, and subsequently to a meeting of the Audit and Best Value Scrutiny Committee.

The council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

## Availability of this letter

This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the council's website.



**Darren Wells**  
District Auditor and Relationship Manager  
December 2004

## Status of our reports to the council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

## Audit and inspection reports issued

Report title	Date issued
Audit plan	February 2003
Core Process Review	April 2004
Financial Aspects of Corporate Governance Review	April 2004
Small schools review – position statement	October 2004
e-government review	August 2004
Transport Inspection	October 2004
Final Accounts Memo	October 2004

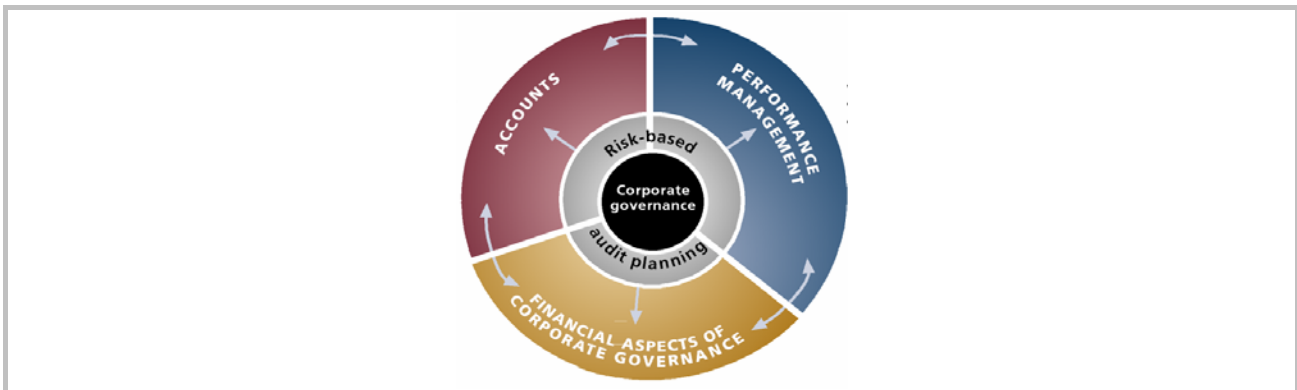
## Objectives of audit and inspection

### Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown below.

#### THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



#### Accounts

- Opinion.

#### Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

#### Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

## Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

## Audit and inspection fees

### Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Accounts	56,000	56,000
Financial aspects of corporate governance	25,000	25,000
Performance	70,000	70,000
<b>TOTAL CODE OF AUDIT PRACTICE FEE</b>	<b>151,000</b>	<b>151,000</b>
Inspection <sup>(1)</sup>	40,000	40,000
<b>TOTAL AUDIT AND INSPECTION FEE</b>	<b>191,000</b>	<b>191,000</b>
Additional Voluntary work (under Section 35)	0	0
Grant Claim certification <sup>(2)</sup>	60,000	60,000

*(1) Inspection fees are net of ODPM grant received.*

*(2) The grant claim audit continues until the end of 2004 and the actual fee reported is our current estimate of the likely fee for the 2003/04 certification work.*

### Inspection fee update

The full year inspection fee is £40,000. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.

## Auditor's report to East Sussex County Council on its Best Value Performance Plan for 2004/05

### Certificate

I certify that I have audited East Sussex County Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

### Respective Responsibilities of the Council and the Auditor

Under the Act the Council is required to prepare and publish a best value performance plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Council's auditor, I am required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
  - where appropriate, procedures to be followed in relation to the plan;
  - whether the Audit Commission should carry out a best value inspection of the Council/Authority under section 10 of the Act; and
  - whether the Secretary of State should give a direction under section 15 of the Act.

### Opinion

#### Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Included in the plan are the Council's estimates for the year ending 31 March 2004. Actual results for the year are likely to be different from the figures reported, because events and circumstances frequently do not occur as expected, and the differences may be material. To the extent that figures included in the plan are estimates, my audit work comprised an assessment as to whether the estimates made by the Council had been properly compiled in all significant respects on the basis of the assumptions stated by the Council, as at the date at which the plan was prepared.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

### Opinion

In my opinion, East Sussex County Council has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

### Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

#### On the basis of my work:

- I do not recommend that the Audit Commission should carry out a best value inspection of East Sussex County Council under section 10 of the Act; and
- I do not recommend that the Secretary of State should give a direction under section 15 of the Act.



Date 06 December 2004

**Darren Wells**  
**District Auditor**

North Wing  
Southern House  
Sparrowgrove  
Otterbourne  
Winchester  
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## Performance audit work

Service reviewed/key findings	Key findings/further action
<b>E-Government progress</b>	
<p>The Council recognises the importance of e-government and the vital part that it will play in achieving its vision of becoming a 'modern e-enabled local authority'. The implementing e-government statement and access strategy – jointly agreed with East Sussex partners – set out how this will be achieved and when. We assessed the progress being made and found that:</p> <ul style="list-style-type: none"> <li>the council is making good progress in implementing its e-government programme and is on track to achieve the national target of 100 per cent e-enablement of services by 31 December 2005;</li> <li>the council has developed its key improvement plans, providing a clear direction for service improvement and processes are in place to align service priorities and resources;</li> <li>explicit targets linked to government priorities have been established and the council is continuing to work with partners on the implementation of national core systems (such as the land and property gazetteer) and is actively involved in national e-government projects (such as the use of mobile technology);</li> <li>sound arrangements and sustainable plans for meeting national and locally determined priorities are in place, the e-government programme is fully funded and officers are investigating new funding streams as a way of sustaining momentum (importantly, all investment decisions are supported by a detailed business case);</li> <li>project request, approval, prioritisation and management processes are fully documented, are applied to all e-government projects and are working effectively; and</li> <li>officer and member e-government steering groups are in place and e-business managers have been appointed in departments.</li> </ul> <p>The council's consultation and feedback mechanisms are extensive and effective and are used to collect the public's views on a range of corporate and service specific issues. Direct public involvement in the shaping of future services is taking place. The result is that corporate strategies, policies and services (in particular the updated council web site) reflect user needs and preferences. An access strategy has been formulated and agreed and, following successful pilots, kiosks and community help points are now being implemented with partners. The number of access channels available to the public or planned is increasing and there are plans to raise public awareness and take up of these new channels.</p>	<p>The council is also making steady progress in its preparations to ensure that by 2005/06 it:</p> <ul style="list-style-type: none"> <li>complies with approaching legislative deadlines;</li> <li>meets national guidelines/requirements; and</li> <li>improves its information management and governance procedures and practices.</li> </ul> <p>The council has prepared a detailed action plan to address the following issues:</p> <ul style="list-style-type: none"> <li>the need to develop benefits management and realisation processes further;</li> <li>the provision of more detailed training for staff and members on upcoming freedom of information requirements and the council's response;</li> <li>the revision of the number and scope of existing governance related groups; and</li> <li>learning from organisations that have successfully implemented a call centre approach.</li> </ul>